Report on Manufacturing Incentives in New Mexico

November 2008

Bill Richardson
Governor

Fred Mondragón, Secretary
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November 7, 2008

The Honorable John Arthur Smith
New Mexico State Senator
Chair, Legislative Finance Committee
Box 998
Deming, NM 88031

The Honorable Edward C. Sandoval
New Mexico State Representative
Chair, Revenue Stabilization and Tax Policy Committee
5016 12th Street NW
Albuquerque, NM 87107

Dear Senator Smith and Representative Sandoval:

House Memorial 37 directs the Economic Development Department and the Taxation and Revenue Department to examine the effectiveness of incentives to attract and retain manufacturing operations to the State, and to report the findings of this examination and any recommendations for new legislation to the Legislative Finance Committee and the interim Revenue Stabilization and Tax Policy Committee.

We are pleased to present the enclosed *Report on Manufacturing Incentives in New Mexico* to the Legislative Finance and Revenue Stabilization and Tax Policy Committees of the New Mexico Legislature. The *Report* provides a description of the tax and non-tax incentives available to manufacturers operating in New Mexico, presents available information on the use and effectiveness of these incentives, and describes the data, methodologies, and resources that would be required for in-depth analyses of the effectiveness of these incentives. The Report also presents a number of recommendations for new legislation affecting manufacturing incentives.

We hope you find this *Report* useful as you consider legislative proposals for the 2009 Session.

Sincerely,

Fred Mondragón
Cabinet Secretary
Department of Economic Development

Rick Homans
Cabinet Secretary-Designate
Department of Taxation and Revenue

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Introduction and Summary

House Memorial 37, introduced by Speaker Lujan and passed in 2008, directs the Economic Development Department and the Taxation and Revenue Department to examine the effectiveness of incentives to attract and retain manufacturing operations to the State, and to report the findings of this examination and any recommendations for new legislation to the Legislative Finance Committee and the interim Revenue Stabilization and Tax Policy Committee. This Report was prepared in response to that mandate.

New Mexico offers a variety of both tax and non-tax incentives to manufacturers for operating in the State. This Report provides a description of each of these incentives, presents available information on the use of each of these incentives, and describes the data, methodologies, and resources that would be required for in-depth analyses of the effectiveness of these incentives. The Report also presents a number of recommendations for new legislation affecting manufacturing incentives.

The Report is organized as follows. The next section provides a description of the tax credits and other tax incentives currently available to manufacturers in New Mexico, and information on the utilization of the credits for fiscal years 2002 through 2007. The third section provides a description of the non-tax incentives currently available to manufacturers in New Mexico. The fourth section provides available indications of the effectiveness of current tax and non-tax incentives, and then addresses what is required for in-depth analyses of the effectiveness of these incentives: the data required, how the data should be collected, the possible methodologies to use in the analysis, and the resources that would be required to collect and analyze the incentives-related data. The final section presents a number of recommendations for extending, or amending existing incentives for manufacturers. Appendices A and B provide additional information on incentive tax credits currently available in New Mexico.

Tax Credits and other Tax Incentives for Manufacturers

Incentive Tax Credits

New Mexico offers a number of incentive tax credits to manufacturers to encourage investment and employment in the State. Some of these credits apply against Combined Report System (CRS) taxes (gross receipts, compensating and withholding), while others apply against the corporate and personal income taxes. Some of these credits are non-refundable, and can only be claimed up to the amount of current tax liabilities, but often any excess credit can be carried forward and applied against future liabilities. Some these credits are fully refundable, so the amount of the credit that exceeds current tax liability is refunded. And some of these credits are transferable, and sold to another taxpayer who has sufficient liability to utilize the credit.

The following paragraphs describe each of the incentive tax credits currently offered to manufacturers operating in New Mexico.

High-Wage Jobs Tax Credit

- Other Tax Credits Act, Section 7-9G-1
- For CRS, E911 and TRS taxpayers
- Refundable

Eligible employers who create high-wage jobs in New Mexico may apply for a tax credit against gross receipts tax (excluding local option gross receipts taxes), compensating tax, withholding tax, E911 and TRS tax due. An eligible employer is an employer: whose sales to persons outside New Mexico during the 12-month report period ending prior to claiming a high-wage jobs tax credit was more than 50%, or who is eligible for the Job Training Incentive Program (JTIP) assistance by the Economic Development Department pursuant to Section 21-19-7. The credit equals 10% of wages and benefits for eligible employees employed in eligible high-wage jobs. The law limits the credits to $12,000 per eligible employee for up to four years. To qualify the job must: be created after July 1, 2004; be occupied for at least 48 weeks during a qualifying period, and an eligible employee must be paid wages and benefits of at least $40,000 if the job is performed or based in Albuquerque, Las Cruces, Rio Rancho, Roswell or Santa Fe, and at least $28,000 if the job is performed or based anywhere else in the State. New Mexico's definition of benefits matches federal law. In general, eligible employees are unrelated New Mexico residents who have no relationship to the company applying for the credit or to any company that owns stock in the company applying for the credit.

Technology Jobs Tax Credit

- Technology Jobs Tax Credit Act, Sections 7-9F-1 through 7-9F-12
- For CRS, PIT, CIT and PTE taxpayers
- Non-refundable

A taxpayer who conducts qualified research and development at a facility in New Mexico – except at a facility operated for the U.S. government – may claim a basic credit equal to 4% of qualified expenditures. The 4% credit doubles when the qualified facility is in a rural area (that part of New Mexico outside Bernalillo, Doña Ana and Santa Fe counties and the three-mile buffer zone around Bernalillo, Doña Ana, San Juan and Santa Fe counties and the municipality of Rio Rancho). Qualified expenses include rent, equipment, software, payroll, technical manuals and materials, and operation and maintenance of facilities. Expenditures which are reimbursed, or which are incurred on property owned by the taxpayer before July 4, 2000, on property owned by a local government in connection with an industrial bond project, or for which the taxpayer has received another credit, are ineligible.

Rural Job Tax Credit

- Rural Job Tax Credit, Section 7-2E-1.1
- For CRS, PIT, CIT and PTE taxpayers
- Non-refundable, Transferable

Eligible employers may earn the rural job tax credit for each qualifying job created after July 1, 2000, applying it to gross receipts tax (excluding local option gross receipts taxes), compensating tax and withholding tax, or to corporate or personal income tax. To be eligible, an employer must have been approved for Job Training Incentive Program (JTIP) assistance by the Economic Development Department has. A qualifying job means a job filled by an eligible employee for 48 weeks in a 12-month qualifying period.

For this credit "rural" means parts of New Mexico outside Los Alamos, Albuquerque, Los Ranchos, Corrales, Rio Rancho, Tijeras, Santa Fe, or Las Cruces, or any area within 10 road miles of any of these cities. There are two types of rural area: "Tier Two" is limited to Roswell, Clovis, Carlsbad, Hobbs, Gallup, Alamogordo, and Farmington, and "Tier One" is any area within New Mexico not mentioned above (2000 census).

Employers receive a credit of 6.25% of the first $16,000 in wages paid for a qualifying job in a qualifying period. If the job is located in Tier One, the employer receives credit for four qualifying periods. A Tier Two employer may take it for two qualifying periods. The credit may be carried forward for three years from the date issued.

Job Mentorship Tax Credit

- Income Tax Act, Section 7-2-18.11 and Corporate Income and Franchise Tax Act, Section 7-2A-17.1
- For CIT, PIT and PTE taxpayers
- Non-refundable

The job mentorship tax credit gives either a corporate or personal income tax credit to businesses hiring qualified students in a school-sanctioned, career-preparation education program. Qualifying businesses must employ students attending an accredited New Mexico secondary school full time. Credits are for 50% of the gross wages paid, subject to limitations. No business may claim more than ten students or $12,000 in any tax year, nor may any student displace a current employee. The credit cannot be allowed for more than 50% of gross wages paid on the first 320 hours of employment for each qualified student; and a credit cannot be allowed for more than three taxable years. Excess job mentorship tax credit may be carried forward from prior years. The credit can be claimed by one or more owners, partners or associates.

Welfare-to-Work Tax Credit

- Income Tax Act, Section 7-2-18.5 and Corporate Income and Franchise Tax Act, Section 7-2A-8.8
- For CIT, PIT and PTE taxpayers
- Non-refundable

New Mexico offers an income tax credit encouraging employers to help welfare recipients make the transition to employment. Equal to 50% of the federal welfare-to-work credit for which the employer is eligible under IRC Section 51A, it can rise from amounts up to $1,750 for the first year of employment to $2,500 for the second year. This credit is also known as the Work Opportunity Tax Credit (WOTC). An employer may carry forward any part of the tax credit remaining at the end of the tax year for three consecutive tax years.

Note that because of changes in the IRC, this credit s no longer in effect.

Investment Credit

- Investment Credit Act, Sections 7-9A-1 through 7-9A-11
- For CRS and PTE taxpayers
- Refundable

The investment credit is for equipment owned and introduced into New Mexico for use by a taxpayer in a new or expanded manufacturing operation. The credit may be applied against a maximum of 85% of a taxpayer's gross receipts, compensating and withholding tax liability, but may not be taken against any local option gross receipts tax imposed by a county or a municipality. Any amount of credit remaining may be claimed in subsequent reporting periods.

An investment credit of 5% applies to the value of qualified equipment -- including equipment purchased under industrial revenue bonds – purchased or brought into New Mexico in connection with a manufacturing operation in New Mexico. The equipment must meet all the following conditions to be eligible for the investment credit:

1) the equipment has not been used previously in New Mexico;
2) the equipment has not been approved previously for the investment credit;
3) the equipment is owned by the taxpayer or leased or subleased to the taxpayer by a United States or New Mexico governmental agency;
4) the equipment must be incorporated within one year into a manufacturing operation; and
5) the equipment meets the qualifications set out under Section 7-9A-6.

The taxpayer must reach certain job-creation requirements to qualify for the credit. For every $500,000 (or portion of that amount) in value of qualified equipment up to $30 million, a taxpayer must add one full-time job to the number of full-time jobs the business reports exactly one year before the day it applies for investment credit. For over $30 million of qualified equipment the employment requirement decreases to one full-time job per $1 million (or portion of that amount) in value of qualified equipment.

Business Facility Rehabilitation Tax Credit

- Income Tax Act, Section 7-2-18.4 and Corporate Income and Franchise Tax Act, Section 7-2A-15
- For PIT, CIT and PTE taxpayers
- Non-refundable

A corporation or individual who restores, renovates or rehabilitates a qualified business facility in an enterprise zone may receive credit on income tax owed to New Mexico. A qualified business facility is a building vacant for at least 24 months and intended to be put into use by a person in the manufacturing, distribution or service industries. The credit equals 50% of the project cost with a cap of $50,000 for each project and a carry-forward provision for four consecutive tax years. An enterprise zone is a distressed area identified as such by a New Mexico county, municipality or Indian reservation, by a combination of any two, or by all three.

Sustainable Building Tax Credit

- Income Tax Act, Section 7-2-18.19 and Corporate Income and Franchise Tax Act, Section 7-2A-21
- For CIT, PIT and PTE taxpayers
- Transferable

Corporate and personal income taxpayers may claim tax credits for investments in constructing or renovating sustainable residential or commercial buildings that meet specific “green” building standards. The tax credit can be claimed by the owner of the building at the time it is certified as a sustainable building or by a subsequent owner if no credit has already been claimed. The rate of the credit ranges from $0.30 up to $9.00 per square foot and varies with the type of building, the total qualified occupied square footage of the building and the degree of energy efficiency incorporated in the building.

Renewable Energy Production Tax Credit

- Income Tax Act, Section 7-2-18.18 and Corporate Income and Franchise Tax Act, Section 7-2A-19
- For CIT, PIT and PTE taxpayers
- Non-refundable

Corporate income taxpayers and personal income taxpayers receive credit for producing electricity by solar light or heat, wind or biomass at a penny per kilowatt hour up to 400,000 megawatt (MWh) hours yearly per taxpayer for ten years. The credit is allowed only for facilities that first produce electricity before January 1, 2018. The total amount of electricity that can qualify for the credit is two million MWh, plus an additional 500,000 MWh for solar facilities. The definition of "biomass" was amended in 2007 to include a variety of organic materials that are available on a renewable basis, including landfill gas and municipal solid waste.

The total credit claimed by all taxpayers for a single generator, other than one using solar energy, may not be more than one penny per kilowatt hour. A variable rate of credit applies for electricity produced using solar energy. The rate starts at 1.5 cents in the first year of operation and increases in increments of ½ cent each of the next five years, to a maximum of four cents; the rate then will decline by ½ cent per year in the next four years to two cents in the tenth year of operation.

To qualify, the taxpayer must either hold title to a qualified energy generator or lease from a county or municipality, under authority of an industrial revenue bond, the property on which the generator operates. A taxpayer with at least a 5% interest in a qualifying energy-generating business may be allocated all or part of the right to claim the credit, but only if the business is treated for federal tax purposes as a partnership and the Energy, Minerals and Natural Resources Department (EMNRD) has approved the allocation. A qualifying energy generator means a facility with at least one megawatt generating capacity located in New Mexico that produces electricity using a qualified energy resource and that sells that electricity to an unrelated person.

This credit, effective from the original date of application, continues until the facility either goes out of production for more than six consecutive months or its 10-year eligibility expires. The corporation may carry excess credit forward for five consecutive tax years.

Alternative Energy Product Manufacturers Tax Credit

- Alternative Energy Product Manufacturers Tax Credit Act, Sections 7-9J-1 through 7-9J-8
- For CRS, PTE, E911 and TRS taxpayers
- Non-refundable

Manufacturers of certain alternative energy products may receive a tax credit not to exceed 5% of qualified expenditures for manufacturing equipment used in the manufacturing operation. The credit may be applied against the manufacturers' gross receipts tax (less local option gross receipts taxes), compensating tax, withholding tax, E911 and TRS tax liabilities. Alternative energy product means an alternative energy vehicle, fuel cell system, renewable energy system or any component of an alternative energy vehicle, fuel cell system or renewable energy system or components for integrated gasification combined cycle coal facilities and equipment related to the sequestration of carbon from integrated gasification combined cycle plants. If the amount of the credit exceeds a taxpayer's liability, the excess can be carried forward for up to five years.

To be eligible to claim a credit, the taxpayer shall employ at least one new full-time employee for every $500,000 of expenditures up to $30 million, and at least one new full-time employee for every $1 million of expenditures over $30 million. If a taxpayer ceases operations at a facility for at least 180 days within a two-year period after claiming credits, no additional credits will be granted with regard to that facility. Amounts of credit approved, but not yet claimed, will be extinguished and the taxpayer will owe the amount of tax that the claimed credits had offset. For purposes of a recapture of this credit, having ceased operations does not include reasonable periods for maintenance or retooling, for the repair or replacement of facilities damaged or destroyed or during labor disputes.

Biodiesel Blending Facility Tax Credit

- Gross Receipts and Compensating Tax Act, Section 7-9-79.2
- For CRS taxpayers
- Non-refundable

A taxpayer who is a rack operator as defined in the Special Fuels Supplier Tax Act and who installs biodiesel blending equipment owned by the rack operator for the purpose of establishing or expanding a facility to produce blended biodiesel fuel is eligible to claim a gross receipts tax and compensating tax credit. The rack operator must be registered with TRD and filing Form RPD-41307, *Rack Operator Report*, to qualify. The credit is equal to 30% of the cost of purchasing and installing biodiesel blending equipment. The rack operator must obtain a dated certificate of eligibility from New Mexico Energy, Minerals and Natural Resources Department (EMNRD) to apply for this credit. The credit cannot exceed $50,000 for equipment installed at one facility. Excess biodiesel blending facility tax credit may be carried forward for four years from the date of the certificate of eligibility issued by EMNRD.

If a credit claimant ceases biodiesel blending without completing at least 180 days of availability of the facility within the first 365 days of issuance of the certificate of eligibility, the taxpayer must notify TRD that they are no longer eligible for the approved credit and any amount of approved credit not applied will be extinguished. Taxpayers must file amended returns and self-assess the tax owed and return any tax credit received within 425 days of the date of issuance of the certificate.

Solar Market Development Tax Credit

- Income Tax Act, Section 7-2-18.14
- For PIT taxpayers
- Non-refundable

Taxpayers who file a New Mexico personal income tax return for a tax year beginning on or after January 1, 2006, and who purchase and install after that date but before December 31, 2015, a solar thermal system or a photovoltaic system in a residence, business or agricultural enterprise in New Mexico owned by that taxpayer may apply for a solar market development tax credit of up to 30 percent of the purchase and installation cost of the system. The federal and state tax credits allowed, when combined, may not total more than 30 percent of the purchase and installation cost of the system. To determine the amount of the state credit, the amount of the allowable federal tax credit, whether or not the taxpayer claims it, must be deducted from 30 percent of the purchase and installation cost of the system. The total solar market development tax credit cannot exceed $9,000 per system, and the system must be approved by the New Mexico Energy, Minerals and Natural Resources Department in advance. A taxpayer may carry forward an unused portion of the credit for up to 10 consecutive tax years following the tax year in which the credit originates.

Intergovernmental Business Tax Credit

- Corporate Income and Franchise Tax Act, Section 7-2A-16
- For CIT and PTE taxpayers
- Non-refundable

A corporation engaged in growing, processing or manufacturing may receive credit for up to 50% of all taxes imposed by an Indian nation, tribe or pueblo located wholly or partly in New Mexico on income from new business activity on Indian land. A tax eligible for credit under Section 7-29C-1 or any other intergovernmental tax that provides a similar credit may not be counted for intergovernmental business tax credit. Such taxes are oil and gas severance tax, oil and gas conservation tax, oil and gas emergency school tax, oil and gas ad valorem production tax on products severed from Indian tribal land, or a tax imposed on the privilege of severing products from tribal land. The law limits the credit to income from a new business established on tribal land after July 1, 1997. A new business is a manufacturer or processor occupying a new business facility, or a grower who began operation in New Mexico after July 1, 1997.

Services for Resale Tax Credit

- Gross Receipts and Compensating Tax Act, Section 7-9-96
- For CRS taxpayers
- Non-refundable

Taxpayers may claim a credit against gross receipts tax for receipts from selling services for resale, provided the resale is in the ordinary course of business, the resale is not subject to either gross receipts tax or governmental gross receipts tax, and the buyer delivers to the seller appropriate documentation from TRD that the resale meets the criteria for "resale in the ordinary course of business." The credit is equal to 10% of eligible receipts multiplied by 3.775% (.03775) for businesses within city limits, or 5% (.05) for businesses located in an unincorporated area of a county. This credit applies to receipts beginning after June 2005.

Services sold to government entities or to persons acting as contractors operating national laboratories in New Mexico are not eligible. The service must be resold and may not be consumed in the ordinary course of business.

Corporate-Supported Child Care Tax Credit

- Corporate Income and Franchise Tax Act, Section 7-2A-14
- For CIT and PTE taxpayers
- Non-refundable

Corporations providing or paying for licensed child care services for employees' children under 12 years of age may deduct 30% of eligible expenses from their corporate income tax liability for the tax year in which the expenses occur. There is a cap of $30,000 in any tax year. If the credit is more than the tax liability, the taxpayer may carry it forward for three consecutive years.

Utilization of Incentive Tax Credits

The following table shows the amount of incentive tax credits claimed for fiscal years 2002 through 2007 (except for corporate incentive tax credits, which are only available through 2006). Note that while all of these credits are available to manufacturers, the amounts shown are the total amounts claimed by all companies, including some companies that are not classified as manufacturers.

Type of Credit	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Business Tax Credits claimed against Corporate Income Tax						
Alternative Energy Tax Credit	$ -	$ -	$ -	$ -	$ -	NA
BioDiesel Fuel Tax Credit	$ -	$ -	$ -	$ -	$ -	NA
Sustainable Building Tax Credit	$ -	$ -	$ -	$ -	$ -	NA
Facility Rehabilitation Tax Credit	$ -	$ -	$ -	$ -	$ -	NA
Inter-governmental Business Tax Credit	$ -	$ -	$ -	$ -	$ -	NA
Investment Tax Credit	$ -	$ -	$ -	$ -	$ -	NA
Rural Job Tax Credit	$ -	$ -	$ -	$ -	$ 2,818	NA
Technology Job Tax Credit	$ -	$ -	$ -	$ -	$ 39,239	NA
Child Care Tax Credit	$ -	$ -	$ -	$ -	$ -	NA
High Wage Jobs Tax Credit	$ -	$ -	$ -	$ -	$ -	NA
Subtotal, CIT Credits	**$ -**	**$ -**	**$ -**	**$ -**	**$ 42,057**	**NA**
Business Tax Credits claimed against Personal Income Tax						
Solar Market Development Tax Credit					$ 340,786	$ 525,059
Technology Jobs Tax Credit:	$ 3,840	$ 16,015	$ 49,035	$ 41,050	$ 58,699	$ 47,067
Rural Jobs Tax Credit	$ -	$ 2,544	$ 1,480	$ 1,940	$ -	$ 29,590
Welfare-to-Work	$ 72,095	$ 96,355	$ 11,062	$ 2,487	$ 1,505	$ 12,426
Job Mentorship Tax Credit		$ 13,691	$ 12,864	$ 14,329	$ 15,156	$ 10,302
Subtotal, PIT Credits	**$ 75,935**	**$ 128,605**	**$ 74,441**	**$ 59,806**	**$ 416,146**	**$ 624,444**
Business Tax Credits claimed against Combined Reporting System						
High-Wage Job Credit	NA	NA	NA	NA	$ 673,829	$ 1,330,863
Investment Credit	$ 3,665,612	$ 715,747	$2,150,947	$ 5,039,864	$ 14,789,417	$ 6,095,168
Rural Job Tax Credit	$ 14,446	$ 177,751	$ 342,580	$ 184,641	$ 187,103	$ 83,812
Technology Jobs Tax Credit: Basic Credit	$ 685,012	$ 475,231	$3,213,531	$ 4,380,808	$ 4,088,614	$ 5,311,333
Subtotal, CRS Credits	**$ 4,365,070**	**$ 1,368,729**	**$5,707,058**	**$ 9,605,313**	**$ 19,738,963**	**$ 12,821,176**
Total, All Credits	**$ 4,441,005**	**$ 1,497,334**	**$5,781,499**	**$ 9,665,119**	**$ 20,197,166**	**$ 13,445,620**

Other Tax Incentives

Double-Weighted Sales Factor

- Corporate Income and Franchise Tax Act, Section 7-4-10 NMSA 1978

As a member of the Multistate Tax Commission, New Mexico has adopted the Uniform Division of Income for Tax Purposes Act (UDITPA). UDITPA and associated regulations spell out the rules by which a corporation or group of corporations operating in more than one state divides income and expenses among those states. For most businesses New Mexico uses the standard three-factor formula of property, payroll and sales to apportion business income of multi-state corporations.

However, taxpayers whose principal activity is manufacturing may use a four-factor "double weighted sales" formula (sales x 2, plus property plus payroll) for tax years beginning on or after January 1, 1995, and before January 1, 2011. The manufacturer must continue to use the four-factor method for a total of three consecutive tax years covering at least 36 calendar months. Taxpayers filing a combined or consolidated return may elect to use the four-factor formula for each corporation principally engaged in manufacturing and included on the return. A taxpayer may not use this option unless: (a) its tax liability is greater than it would have been for the previous year if the same apportionment method was used, or (b) the taxpayer has increased its combined property and payroll factor percentages in the state over its 1991 levels. The election to use the four-factor method must be made in writing no later than the filing date of the first return to which the election will apply.

Industrial Revenue Bonds (IRBs)

IRBs are discussed more fully below as a non-tax incentive that provides loans at favorable interest rates. However, because the land and equipment purchased with IRB funds are the property of the local government issuing the IRB, the business may also receive tax benefits through exemption of purchased equipment from gross receipts or compensating taxes, and a full or partial exemption from property tax on the project property for 30 years.

Other (Non-Tax) Incentives for Manufacturers

Industrial Revenue Bonds (IRBs)

An IRB is a loan from the bond purchaser to a company where the loan proceeds and repayment flow through a governmental entity. Bond funds are used by the business to buy land and equipment as agents for the governmental body. A company enters into a lease with the government to use the property in its operations. The agreement provides that the company will lease the facility from the issuer and, at the end of the lease, purchase the facility from the issuer for a nominal amount.

The governmental body has no financial risk in the arrangement and the arrangement allows the private business to take advantage of the tax exempt status of the government, which can confer tax benefits to the company (see above).

Who Uses IRBs? An Example

Ktech, an engineering and manufacturing company, secured a $12 million IRB to build a 90,000 square foot manufacturing facility at the Sandia Science and Technology Park. The facility houses Poly-Flow Engineering, a Ktech acquisition that manufactures spray cleaning equipment for the semiconductor industry. The IRB provided the financial incentive to Ktech to bring Poly-Flow here from California.

Job Training Incentive Program (JTIP)

The Job Training Incentive Program supports economic development by reimbursing qualified companies for a significant portion of training costs associated with newly created jobs. Thus, JTIP provides a substantial incentive for economic growth while enhancing the skill levels of program trainees who occupy the newly created jobs.

Two categories of companies are eligible to be considered for JTIP funds. The first category is manufacturing (the product must be manufactured in New Mexico). Renewable power generators and film post-production companies are eligible under the manufacturing category. The second category is companies which provide a non-retail service when a minimum of 50% of revenue coming from a customer base outside New Mexico. Eligible companies must be creating new jobs as a result of expansion, startup or relocation to the State. Companies that have been funded previously by JTIP must have at least as many total employees as when they last expanded under JTIP and must be able to demonstrate financial stability to ensure long-term employment for JTIP trainees.

JTIP reimburses companies and post-secondary public education institutions for customized classroom training or on-the-job training, or a combination of the two. Trainee wages are reimbursed at 50 to 75% depending on the location of the company and the wage levels paid for the new jobs.

Who Takes Advantage of JTIP?

Although JTIP provides a significant financial incentive for new companies to the State that must hire an entire workforce, the most common JTIP applicant is an existing New Mexico business that is expanding and creating between 4 and 10 new jobs. In fact, in the last five years only 28% of JTIP's allocated funds have been used by new companies to the State.

Capital Outlay

Economic development capital outlay is used to provide financial support for business development projects that directly create jobs. Eligible projects must apply through their local government, which must agree to serve as the fiscal agent. Capital outlay funds may only be used for planning, design and construction purposes or to purchase fixed assets (land, building and equipment) directly related to the project. Criteria used to consider projects for possible funding includes the number of jobs created and total capital investment, other potential positive economic impacts on the region, the type of business, and the project timeline.

Recent Capital Outlay Recipients

- Marietta Biscuit Company, Alamogordo, capital outlay amount is $200,000 to $6.5 million private investment. 100 new jobs

- Schott Solar, Albuquerque, capital outlay of $7.5 million to $100 million in private investment. 1,500 new jobs

The State Investment Council (SIC)

The State Investment Officer may invest in New Mexico private equity funds upon the approval of the Private Equity Investment Advisory Committee and the SIC. A New Mexico private equity fund must establish and staff a full-time office in the state. In addition, the private equity fund must agree to invest or cause to be invested in New Mexico companies an amount equal or greater to the State's commitment to their fund. The SIC may also make equity and/or debt investments directly in New Mexico businesses. The mechanism the SIC currently uses for direct investments is the New Mexico Co-Investment Partnership, a New Mexico private equity fund managed by Sun Mountain Capital. Sun Mountain is the fund's general partner, while also acting as the SIC's advisor for New Mexico private equity fund investments. The SIC's direct investments in New Mexico companies may represent no more than 51% of the investment capital in a business and must be made in conjunction with one or more qualified co-investors. To date, these investments in qualified New Mexico companies range from $1 million to $20 million.

New Mexico 9000

The Economic Development Department has a program to assist companies in becoming ISO 9001:2000 and AS9100 certified. The assistance is provided at a fraction of the cost and time to accomplish these certifications in the private sector. ISO 9001:2000 is a requirement for suppliers to major U. S companies (for example Boeing, Intel, General Motors), agencies of the U. S. government (DOD, NNSA, NASA) and a requirement to do business in over 170 countries. Assisting companies to achieve ISO certification increases their opportunity to win contracts and increase employment. Companies that have participated in the New Mexico 9000 program have created over 1,000 new expansion jobs.

Effectiveness of Current Incentives for Manufacturers

Available Indications of Effectiveness

Each year the New Mexico Industrial Development Executives' Association surveys its membership of community leaders, government officials and economic development professionals prior to setting its legislative agenda. JTIP and the most prominently used tax incentives, like Rural Job Credit, the High Wage Jobs Credit and the Investment Credit, are always at the top of the list of their priorities.

The Economic Development Department also continuously receives feedback concerning incentives from the companies it works with to expand investment and employment in New Mexico. The following statements from some of these manufacturing companies indicate the importance they attach to current incentives.

Genzyme Genetics (Santa Fe)

"We appreciate New Mexico's High Wage Jobs Tax Credit, the Manufacturers Investment Tax Credit, JTIP, and the state's high quality workforce, all of which make it attractive for us to continue to grow our business here."

Merillat Industries (Los Lunas)

"Choosing where to expand our business is a critical, long-term, strategic decision that involves many factors. What really tips the scales in the decision are the relationships developed with state and local officials and the overall economic incentive package. When we evaluated New Mexico we looked at the bottom line. The Job Training Incentive Program, High Wage Jobs Tax Credit, IRBs and the Rural Jobs Tax Credit stand out in the package."

Monarch Litho (Santa Teresa)

"The availability of Industrial Revenue Bond financing and associated tax incentives, the Job Training Incentive Program and the Rural Jobs Tax Credit were all significant in our decision to build a facility in Santa Teresa."

Southwest Cheese (Clovis)

"The incentives offered by the State of New Mexico, which include the Rural Jobs Tax Credit, the High Wage Jobs Tax Credit and the Job Training Incentive Program, among others, were major factors in influencing our decision to locate in New Mexico."

Kendal Precision Machining Inc. (Albuquerque)
"We have increased our revenue from $875,000 in 2003 to over $2 million now. I am now in the position that I am negotiating on the purchase of a new building to support my

growth. I am using the Manufacturing Investment Tax Credit, the High Wage Jobs Tax Credit, and JTIP. These programs are very important to the continued growth and success of my company."

<u>Tempur-Pedic (Albuquerque)</u>

"We found that Albuquerque and New Mexico rates best among the various factors that we studied, including quality of labor, operating costs, electric reliability, transportation and leadership support. Industrial Revenue Bonds and other incentives, as well as the quality of the site presented to us, were also important considerations in the final aspects of our decision."

<u>CI Direct (Taos)</u>

"CI Direct exclusively selects rural communities for its locations because they prefer a family atmosphere to a corporate one. This represents challenges in the area of developing a strong workforce of licensed insurance agents – very low turnover is essential. The Job Training Incentive Program made this possible for us in Taos. The availability of both the High Wage and Rural Jobs Tax Credits were also important to our decision."

Requirements for Quantitative Analysis

While the preceding statements provide useful indications of the importance of current incentives to attracting and retaining manufacturing operations in New Mexico, they do not provide a quantitative analysis of the effectiveness of the incentives. Quantitative analyses of incentives require data and methodological tools, and a commitment of resources, which are not currently available to either the Economic Development Department or the Taxation and Revenue Department. The following discussion of these requirements draws heavily, and in some cases directly, from the "New Mexico Economic Development Tax Incentive and Accountability Task Force Report" which was released by the Economic Development Department April 8, 2006.

Data Required for Analysis of Effectiveness

It is important to develop an evaluation program which objectively assesses the effectiveness of the incentive programs. The evaluation program demands that data be collected from beneficiary companies and the state agencies alike in order to link economic growth to the incentive programs. The collected data should be gathered once the incentive award is granted to the beneficiary and continued to be gathered on an ongoing basis. The data should be interpretable such that a report can be generated which is then used to provide a snapshot highlighting the creation of new jobs resulting from the incentive program. As a result of gathering this data and the associated report(s), the Executive, the Legislature, and the public will be better able to assess the results of incentive programs and moreover, develop a long-term understanding of the impact of the incentive programs on the New Mexico economy. The following outlines the various data that should be gathered in order to evaluate economic development effectiveness.

Job Growth

Each beneficiary company must report the number of new jobs added which are above its previous three-year average employment level. Its three-year average employment level is that number which the beneficiary currently reports to the Department of Workforce Solutions in quarterly unemployment insurance reports. This is called the company's number of net new jobs and is a good indicator of the total number of net new jobs generated by the incentive program.

Wages

Beneficiary companies must provide data stating their employees' annual wages as well as the wages of those jobs resulting from the incentive program. On an annual basis, the company must report annually the total wages paid to New Mexicans relating to the incentive program, and the average wage of the newly created jobs. If possible, each beneficiary's report would also include a classification of jobs by income levels, e.g. those paying more than $28,000 a year (the threshold for the High Wage Jobs Tax Credit).

Benefits

Companies must provide ongoing data reflecting their offered benefits and their percentage contribution for those benefits. In particular, companies must focus on those benefits offered to newly created positions resulting from the incentive program. Possible benefits include: retirement, healthcare, day care, subsidized meals, and flex time. A simple way to determine what in fact is a benefit is to use the standard federal definition. Companies would also be required to report their employees' cost sharing on health insurance.

Investment

Companies must collect data stating the total dollars spent annually on new construction, machinery, and equipment as a result of the incentive. The companies must annually report the total dollars being invested by the company, directly demonstrating the result of any incentive program.

Investment in Research and Development

If companies used either the Technology Jobs or the Research and Development Small Business Tax Credits, they must report how much they invested in research and development the year of the credit in their New Mexican operations to innovate their products and / or services. On an annual basis the company must report the total dollars invested in research and development.

New Versus Existing Business

Beneficiary companies must annually report the number of years that they have been open for business in New Mexico. This data would enable the State to determine the percentage of new and old business taking advantage of the incentive programs.

Industry

In order to track which industries are likely to use the offered incentives, companies would be required to report their NAICS (North American Industry Classification System) code as well as a brief description of their offered products and/or services. The descriptions would enable the incentive program to validate if the NAICS codes were uniformly applied across companies.

Claimed Versus Applied for Incentives

Because the Investment Tax Credit, Rural Jobs Tax Credit, and Technology Jobs Tax credit all have provisions allowing companies to roll any unused credit over to another year, beneficiaries would be required to report any tax credits in excess of their liabilities, being carried to a future tax year. While the Rural Jobs Tax Credit allows companies to transfer their credits to other legal entities, the state would most likely still forego a certain amount of tax revenue, which would also need to be reported. By gathering this information, the state would be able to determine how many future years of outstanding liabilities exist related to these credits.

Rural vs. Urban Located Operations

In order to accurately assess the level of rural versus urban companies taking advantage of the incentives, companies would be required to report their employees' workplaces' physical locations. If it is possible to protect the identity of each individual taxpayer, companies would also report where they are regionally located.

State Residency

Companies would report the state of residency of employees hired in the last year. This data could be used in an annual report to compare the number of New Mexicans hired for newly created jobs versus the number of out-of-stat residents that migrated to New Mexico for these jobs.

Trend Data

In order to determine trends created by the incentive program, companies need to provide the above ascribed data annually for multiple years. After Year 2, an overall annual report will be able to show changes in key indicators, while reflecting short and long-term trends.

While the above outlines which data should be collected on all companies participating in any incentive program, the following data, which is more extensive in nature, should be collected for those companies using industrial revenue bonds (IRB).

- Bond provisions which include: the dollar amount of the bond issue(s), the term of the bond(s), the percentage of the abated property taxes, amount of exempted payments and compensating and gross receipts taxes made in lieu of taxes by the company. This data will help the state project any forgone State revenues.

- Initial projections related to overall company growth which include: the number of jobs created, wages paid, benefits, investments, and research and development, type of business, and location of business. This will help the state assess the success of the IRB before the company is operationally using the IRB to generate sales. This is because there is a time lag between when the company applies and is approved for the IRB's and when it hires its permanent staff to man the facility.

- Sufficient authority should be given to the state's Taxation and Revenue Department to gather other data that would enable it to assess the state's foregone revenues for gross receipts taxes, property and compensation.

How Data Should be Collected

In order to conduct the best reporting on incentive programs, it is important to develop an ongoing, sustainable process that supports the annual gather of data and reporting. Given the recent push for greater transparency and accountability among corporations and companies alike, many states have implemented programs to evaluate the effectiveness of their business incentive programs. While some state agencies have developed and implemented their own evaluation programs, others have turned to third-parties, e.g. legislative committees, auditors, independent organizations, academic researchers, and even journalists, to review their programs.

Most of the states have established basic reporting requirements that were primarily derived from what was contractually agreed upon as the required business reporting data at the time of the incentive's award. Among other data, it usually includes: number of jobs created, wages paid, and benefits. This data has enabled states to conduct minimal analysis that is then captured in an annual report for the legislature.

Strategies for gathering data related to job growth take one of two forms: direct and indirect.

- Direct: In this case the company receiving the benefit of the incentive collects the data or hires a third-party to gather the data, via various means including a potential audit. The data is collected for the purpose of reporting the effectiveness of the incentive.

- Indirect: In this case data is extrapolated or interpolated from primary or secondary sources. The original intention of collecting data was not for sake of the reporting the effectiveness reporting of the incentive.

Before selecting a method for data collection, the following factors should be considered:
- Cost of gathering the data
- Neutrality of data collection party and thus, "reliability" of data
- Ability to use data for multiple purposes
- Ability to analyze data

Based on this study, it is recommended that the State use the direct data collection method similar to that in North Carolina due to the similarity of credits offered.

Methods for Quantitative Analysis

At least five commonly accepted methods for evaluating economic development incentives appear regularly in the literature. In addition to these regularly noted approaches, we add two more. These methods are:

Survey Methodology

This approach involves surveying executives regarding business investment decisions. The principal advantage of the survey method is that it provides direct information regarding important factors in investment decision-making and avoids the complex statistical assumptions that plague data-intensive analysis. Surveys also are not dependent on obtaining data that might either be unobtainable under state confidentiality laws (e.g. company-specific data submitted to the taxation authorities) or not adequately addressed to the questions being asked. In theory, surveys can answer the question of whether a tax incentive resulted in a change in a firm's behavior – although the accuracy of such answers can be subject to a number of biases.

Disadvantages of this approach include the difficulty of locating the individual(s) responsible for firm-specific site location or investment decisions, the response rate, quality and completeness of responses, and the lack of precise measures of the impact of the various factors influencing investment decisions. It can be difficult, for example, to interpret the rankings of factors because of individual subjective interpretation of the rankings. It is also difficult to measure each factor one at a time to provide a more precise measurement of the importance of a single factor (as can be obtained, for instance, through multivariate regression). Since survey samples typically include only those businesses receiving tax incentives, the method is subject to selection bias; it also is subject to response bias, since respondents want more tax incentives whether or not those incentives directly alter their behavior. New electronic surveys can be used to make this methodology more efficient and provide a better means for feedback.

A good example of survey research in action was undertaken during an evaluation of Maine's public investment in research and development. As part of a six-year effort to study Maine's investments in research and development and to provide guidance to the Legislature and Governor to increase Maine's competitiveness, this study sought to answer three questions: (1) *How competitive is Maine's publicly funded R&D and has the state's competitiveness improved over time?* (2) *What is the impact of Maine's R&D investment on the development of Maine's R&D industry? (3) What is the impact of*

Maine's R&D investment on the level of innovation and innovation-based economic development? Among the strategies used by evaluators were surveys of recipients of state R&D assistance that is channeled to them through stakeholder organizations, and of research institutions in Maine.

Case Study Technique

This approach examines the effect of specific tax incentives on individual firms. The principal advantage of this method is that it allows the investigative technique to be tailored to specific economic situations and the unique circumstances of individual firms. Case studies provide an in depth understanding of one or a few tax incentive programs. The major drawback is that it is difficult to separate other factors in assessing the effects of any incentive measure. In addition, there are the added issues of establishing a basis of comparison for assessing the tax incentive's effect and the difficulty in applying any specific findings to more general circumstances. Case studies can also be used at a state or regional level by reviewing economic and other data before and after a specific incentive was provided. The problem with this approach is that there may be many other factors that influenced the changes in data beyond a change in tax burden; the case-study method is not adept at sorting through such multiple factors. This "counterfactual problem" is sometimes addressed by combining the case study with the survey technique.

"Hypothetical Firm" Methodology

Under this technique, hypothetical firms of varying sizes, profitability, and industry characteristics are "created" and "placed" in particular geographic locations. Models are then constructed to replicate operating ratios, balance sheets, income, and tax statements for these "make believe" firms. Through these means, the effect of state and local taxes on a firm's performance can be calculated. Although this method directly measures the impact on profit, cash flow, and internal rate of return of state and local taxes, critics do not believe that it measures the effect of changes in state and local taxes on firms' expansion and location decisions as a result of incentives. There can also be problems in obtaining accurate, real-world firm data. Estimates of these effects can be made with more sophisticated and complex economic models, however, these depend upon a large number of assumptions that must be built into the model, which may allow one to compare the effectiveness of different incentives to each other but does not provide a precise guide to the actual magnitude of the effects.

This approach is gaining in popularity in part because it allows for comparison between companies that do and do not use an incentive and for isolating individual factors. One of the better-known models is the Tax and Incentive Model for Enterprise Zones (TAIMs), designed specifically for enterprise zone analysis.

Econometric Approach

The econometric method is the most popular in tax incentive studies, particularly among academics. This approach represents an attempt to distinguish the impact of non-tax factors from tax-related factors. If data are available and the model is appropriately constructed, the tax impacts can be isolated from the effect of other factors.

Fundamentally, the econometric model is a multivariate model using regression analysis to derive the relationships, or correlation coefficients ("multipliers"), among various data streams to predict the resulting values.

A time series model suggests that economic behavior in the future is primarily a function of the passage of time. The research literature suggests a more widespread use of multivariate models, particularly to achieve a systemic view. More often than not, this sort of econometric modeling and analysis is done by university researchers and less so by other organizations and state agencies. Looking at all of the tax credit programs in a particular jurisdiction as a system is essential because the review process, where it exists, is disjointed and a problem anywhere may thwart the overall analysis of the impact of the tax credit program. A portfolio of incentive programs must reach a stage of maturity where historical data is available for use in the development of projections.

Unfortunately, suitable data are frequently neither available nor easily producible, and properly specifying appropriate models can be a difficult undertaking. This means that construction of a model that is sufficiently robust and complex to reliably measure changes in investment activity due to tax policies, especially if they are small or variable, can be an expensive and time-consuming activity. In the view of Luger & Bae, "The method's most serious disadvantage is that firm-level empirical data are not generally available. Hence, the studies use macro-level data instead. That can lead to an overestimation of program effects because it removes the atomistic behavioral dimension from the analysis."

In short, critics do not believe that these models reflect the real-world decision-making processes of companies. These studies also often fail to control for other important factors, such as the quality or value of public services. Despite these drawbacks, dynamic econometric models increasingly are being used in tax estimation generally, and the sophistication of the models is increasing. Their complexity, however, can make them a cumbersome tool when quick analysis is required.

<u>Computable General Equilibrium (CGE) Modeling</u>

The use of CGE modeling incorporates many of the estimation techniques and methodologies of the econometric approach, and therefore suffers from many of the same data concerns and modeling issues. However, the CGE approach does have the advantage of being able to specify (either based on empirical information or assumptions) structural relationships and interactions between and among economic variables in the model – Luger and Bae, "The Effectiveness of State Business Tax Incentives: The Case of North Carolina."

This requires, however, large amounts of data, sophisticated modeling, and extensive computation. In addition, the multi-equation, interlinked nature of the model makes it highly sensitive to assumptions about parameter values. The complexity of the approach makes it costly to tailor to the unique nature of each separate state's tax system.

Compliance Analysis

The government and the incentive-receiving company agree to the kinds of results that are expected to be produced through the incentive. An after-the-fact assessment examines whether the company complied with the terms of the agreement. No modeling of economic impact occurs, and little analysis is done beyond computing averages, such as the amount of incentive funds used to "create" each new job.

Although simple, this analytic method may not yield the data to match the specific state economic development goals. For example, research generally shows that for every 100 new jobs created through a tax cut or an incentive subsidy that mimics the effect of a tax cut, the source of new labor is generally drawn in these proportions from these sources.

- 7 from the ranks of the unemployed
- 16 from the local pool who were either not looking for a job before or who were employed elsewhere
- 77 from in migration

This may or may not match the intended outcomes of the incentive. In short, the data requested needs to be precise enough to permit the desired level of efficacy analysis at a later date. Furthermore, distinctions of this type are especially relevant to evaluating the indirect costs of such subsidies; the public costs associated with in-migration, such as the cost of new public services, pressure on real estate prices, pressure on labor costs, are different than those associated with redistribution of employment.

"But For" Analysis

This type of analysis seeks to answer the ultimate question of "But for this incentive, would the company have relocated or expanded here?" At bottom, this is the most important question because it targets a fundamental underlying purpose for incentives: to provide incentives to encourage certain corporate behavior.

This most desirable predictive method is also the most difficult, and we found very few successful examples of a model to answer the "but for" question. All of the basic methodologies discussed to this point have been used in trying to do so – however, there is no consensus on how best to address the "but for" question.

It is probably easier to evaluate outcomes that arise in the situations in which tax incentives or subsidies are granted on a selective, one company- at-a-time basis, than to do so as to the availability of general tax credit programs. States such as Michigan are trying to include the "but for" analysis and binding company assurances as a condition to receiving a business tax incentive or package of incentives; Michigan, for example, awards 75% of its incentives on a discretionary basis, permitting a more direct answer to the 'but for' question. Although this still does not guarantee that the "but for" test has been passed, it does impose a more rigorous screening process on economic development officials and the companies applying for the incentives.

Resources Required to Gather Data and Perform Analyses

As the preceding discuss indicates, there are many methods to evaluate a tax incentive program. Given the spectrum of tax incentive structures, there is no single best practice in program design and implementation. Instead, there are some basic variables that need to be considered in developing an evaluation program:

- Reporting years – on which cycle information should be gathered and why; and when reports should generated and why, and which organizations should receive them;

- Departmental coordination – which aspects of the program demand departmental cooperation to ensure the best results;

- Systems – which technology should be used for data collection; and

- Beneficiary Outreach – how to best educate the business community about the requirements and benefits the program.

Based on the experience in North Carolina and Nebraska, it can be estimated that the costs to New Mexico may be as follows:

- Start-up information system development and computer purchases: ranging from $250,000 to $300,000.

- Community outreach: ranging from $40,000 to $60,000.

- Additional Staff Required for Tax and Revenue Department:
  - 2.2 FTE (not including benefits)
  - Economist: fulltime $80,000
  - Database manager: halftime $40,000
  - Data entry/clerical: halftime $20,000
  - Senior staff oversight: .2 FTEs $20,000.

- Additional on-going costs, besides the continuation of salaries, include systems updating and maintenance and continued outreach. These costs are in the range of $30,000 to $50,000.

- Biennial report: ranging from $100,000 to $130,000 (includes the contract with the outside consultant to perform the analysis and prepare the report.

Recommendations for New Legislation

In recent years, the Administration and the Legislature have worked for aggressive tax incentive policies. A number of new tax credits were passed in 2006, as well as extensions of existing tax credits, such as the High Wage Jobs tax credit.

For the 2009 Legislative session, the Economic Development Department is not proposing any new tax incentives. However, some changes and extension of existing credits are planned:

Extend Manufacturer's Investment Tax Credit

Extend current 2011 sunset for the Manufacturers' Investment Tax Credit to 2016.

Extend Research and Development Small Business Tax Credit

Extend current 2009 sunset for the Research and Development Small Business Tax Credit to 2013.

Amend Film Production Tax Credit

Ensure that out-of-state actors are current on their NM taxes and ensure that the production company's tax rebate will not be rejected on grounds and non-payment by actors.

Ensure production company confidentiality.

Film Production Tax Credit Assignability

Allow the credit to be assignable, allowing for banks and investors to provide upfront financing based on their expected tax credit.

JTIP Technical Changes

Update language to allow current board members to assign designees for easier quorums, as well as to reflect current names of state agencies (i.e., not the Commission on Higher Education, but the Higher Education Department, etc.)

Change the requirement from "appropriation" to "number of projects" in terms of the division between urban and rural to better reflect the realities of the program.

Appendix A: Description of Incentive Tax Credits

Tax Credit	*Gross Receipts Tax*	*GRT excluding local option GRT*	*Compen-sating Tax*	*With-holding Tax*	*Personal Income Tax*	*Corporate Income Tax*
Advanced Energy	X		X	X		
Affordable Housing **		X	X	X	X	X
Agricultural Water Conservation Expenses					X	X
Alternative Energy Product Manufacturers**		X	X	X		
Biodiesel Blending Facility	X		X			
Blended Biodiesel Fuel					X	X
Business Facility Rehab					X	X
Corporate Child Care						X
Cultural Property Preservation					X	X
Double Local Option Tax	X		X	X		
Electronic Card-Reading Equipment					X	X
Film Production					X	X
High-Wage Jobs **		X	X	X		
Hospitals GRT	X					
Intergovernmental Business						X
Investment Credit *		X	X	X		
Job Mentorship					X	X
(National) Lab Partnership with Small Business		X				
Land Conservation					X	X
Renewable Energy Production					X	X
Research and Development Small Business	X		X	X		
Rural Jobs		X	X	X	X	X
Services for Resale	X					
Solar Market Development					X	
Sustainable Building					X	X
Technology Jobs (Basic)	X		X	X		
Technology Jobs (Add'l)					X	X
Unpaid Doctor Services	X					
Welfare-to-Work					X	X

* Credit is limited to 85% of taxes due in a report period.

** Also applies to Interstate Telecommunications GRT, 911 Emergency Surcharge and Telecommunications Relay Surcharge.

Incentive Tax Credits Applicable Against Corporate Income Tax

Type of Credit	Statute	Description	Carry Forward	Refund-able	Transfer-able	Repealed	Anti-Double Dip	Overall Cap	Review Required	Recapture
Cultural Property Preservation	7-2A-8.6	1/2 of eligible expenses up to $25 thousand maximum per restoration	Yes, 4 years	No	No		No	No	Yes	No
Welfare-To-Work	7-2A-8.8	50% of Federal Welfare-To-Work credit amount	Yes, 3 years	No	No		No	No	Yes	No
Land Conservation	7-2A-8.9	50% of fair market value of donated land; maximum $250 thousand for land conveyed	Yes, 20 years	No	No		No	No	Yes	No
Corporate-Supportee Child Care	7-2A-14	30% of eligible expenses; $30 thousand annual maximum.	Yes, 3 years	No	No		No	No	No	No
Facility Rehabilitation	7-2A-15	50% of eligible expenses up to maximum $50 thousand.	Yes, 4 years	No	No		Partial	No	Yes	No
Job Mentorship	7-2A-17.1	50% of wages of qualified students for up to 10 students; Maximum of $12 thousand	Yes, 3 years	No	No		No	No	Yes	No
Electronic ID Card Reader	7-2A-18	$300 per business location with eligible equipment	No	No	No		Partial	No	No	No
Renewable Energy Production	7-2A-19	$0.01 per kWh up to 400 thousand kWh; Maximum of 2 million kWh for all taxpayers;	Yes, 5 years	No	No		No	$20 million	Yes	No
Produced Water	7-2A-20	$1 thousand per acre foot up to $400 thousand.	Yes, 3 years	No	No	1/1/2006	No	No	No	No
Rural Job Tax Credit	7-2E	25% of $16,000 per job (tier 1 area) or 12.5% of $16,000 (tier 2 area); employers eligible for in-plant training.	Yes, 3 years	No	Yes	6/30/2006	Partial	No	Yes	No
Film Production	7-2F	25% of direct production expenditures and certain post-production expenditures; 20% if the tax payer receives a new market tax credit form federal government (7-2F-1©)	No	Yes	No	5% expires Dec. 2008	No	No	Yes	No
Technology Jobs Tax Credit	7-9F	4% of qualified research expenditures or 8% if rural; Additional 4% credit for raising in-State payroll; $75 thousand for every $1 million in qualified expenditures claimed	Yes	No	No		Partial	No	Yes	Yes
Affordable Housing	7-9I	50% of value of goods and services donated	Yes, 5 years	No	Yes		Partial	$3.7 million	No	No
Recommended guideline			3 years	No	No	Yes	Yes	Yes	Yes	Yes

Incentive Tax Credits Applicable Against Combined Reporting System (CRS) Taxes

Type of Credit	Statute	Taxes Applied Against	Description	Carry Forward	Refund-able	Transfer-able	Recapture	Repealed	Anti-Double Dip	Overall Cap	Review Required
Investment Credit	7-9A	GRT (state portion), Compensating Tax or Withholding Tax	Compensating tax rate (5%) times the value of qualified equipment subject to employment requirements and limited to 85% of total liability	Yes	No<2>	No	No	<3>	No	No	Yes
Capital Equipment Tax Credit	7-9D	GRT, Compensating Tax or Withholding Tax	GRT rate or Compensating tax rate times the value of capital equipment for call center	Yes	No	No	No	7/1/2004	NA	NA	NA
Laboratory Partnership with Small Business Tax Credit	7-9E	GRT (state portion)	Qualified expenditures up to $10,000 per small business & $20,000 per small rural business; $2.4 million max per calendar year	No	No	No	No		No	$1.8 million	No
Technology Jobs Tax Credit: Basic Credit	7-9F	GRT (state portion), Compensating Tax or Withholding Tax	4% of qualified expenditures; Credits double for facilities in rural areas.	Yes	No	No	Yes		Partial	No	Yes
High Wage Jobs Tax Credit	7-9G	All CRS except local option GRT.	10% of eligible wages up to $12,000 per employee; Available for up to 4 years; Jobs must pay at least $40,000 (city of 40,000 or more) or $28,000 (all other)	No	Yes	No	No	1/1/2010	No	No	No
Rural Job Tax Credit	7-2E	All CRS except local option GRT	25% of $16,000 per job (population less than 15,000) or 12.5% of $16,000 (population over 15,000); employers eligible for in-plant training.	Yes	No	Yes	No	6/30/2006	Partial	No	Yes
Research and Development Small Business	7-9H	GRT, Comp & Withholding	100% of CRS liability of qualified firms for 3 years	No	No	No	No	6/30/2009	Yes	No	No
Affordable Housing	7-9I	All CRS except local GRT options & GGRT	50% of value of goods and services donated	Yes, 5 years	No	Yes	No		Partial	$3.7 million	No
Certain Sales of Services for Resale Tax Credit	7-9-96	GRT (state GF only)	10% taxable GRS * 3.775% if busines is located in a municipality or 5% if business in county location	No	No	No	No		No	No	No
Recommended guideline		State GRT + Comp.		3 Years	No	No	Yes	Yes	Yes	Yes	Yes

<1> CRS taxes include gross receipts tax, compensating tax, withholding, interstate telecommunications GRT, leased vehicle GRT, Leased Vehicle Surcharge and Governmental GRT.

<2> Limited amounts of Investment Credit may be refunded under certain circumstances.

<3> Investment credit amounts are significantly limited after June 30, 2011

Incentive Tax Credits Applicable Against Personal Income Tax

Type of Credit	Statute	Description	Carry Forward	Refund-able	Transfer-able	Anti-Double Dip	Overall Cap	Review Required	Recapture
Cultural Property Preservation	7-2-18.2	50% of qualified costs up to $25 thousand.	Yes, 4 years	No	No	No	No	Yes	No
Business Facility Rehabilitation	7-2-18.4	50% of qualified costs up to $50 thousand per facility.	Yes, 4 years	No	No	Partial	No	Yes	No
Welfare-to-Work	7-2-18.5	50% of Federal Welfare-To-Work credit amount	Yes, 3 years	No	No	No	No	Yes	No
Job Mentorship	7-2-18.11	50% of wages of up to 10 qualified students per year. Limit of $12 thousand per year.	Yes, 3 years	No	No	No	No	Yes	No
Electronic ID Card Reader	7-2-18.8	$300 per business location with eligible equipment	No	No	No	No	No	No	No
Land Conservation	7-2-18.10	50% of fair market value of donated land; maximum $100 thousand.	Yes, 20 years	No	No	No	No	No	No
Rural Jobs Tax Credit	7-2E	25% of $16,000 per job (tier 1 area) or 12.5% of $16,000 (tier 2 area); employers eligible for in-plant training.	Yes	No	Yes	Partial	No	Yes	No
Technology Jobs Tax Credit	7-9F	4% of qualified research expenditures or 8% if rural	Yes	No	No	Partial	No	Yes	Yes
Film Production	7-2F	20% of direct production expenditures and certain post-production expenditures	No	Yes	No	No	No	Yes	No
Affordable Housing	7-9I	50% of value of goods and services donated	Yes, 5 years	No	Yes	Partial	$3.7 million	No	No
Solar Market Development	Laws 2006, Ch. 93	30% of solar system costs less applicable federal credits	Yes, 10 years	No	No	No	No	Yes	No
Recommended guideline			3 Years	No	No	Yes	Yes	Yes	Yes

Employment Incentives					
Type of Credit	Technology Jobs Tax Credit	High Wage Jobs Tax Credit	Rural Job Tax Credit	Welfare-to-Work	Job Mentorship
Statute	7-9F	7-9G	7-2E	7-2A-8.8; 7-2-18.5	7-2-18.11; 7-2A-17.1
Taxes Applied Against	CRS (State GRT); PIT; CIT	All CRS except local option GRT.	All CRS except local option GRT	PIT, CIT	PIT; CIT
Credit rate	4% of qualified expenditures, 8% if rural	10% of wages up to $12,000 per employee for each of four years	25% of first $16,000 wages (rural) or 12.5% of first $16,000 (urban)	50% of federal Welfare-to-Work credit	50% of wages of up to 10 students up to $12,000
Eligibility	$75,000 payroll increase per $1 million expenditures	Employment one year after hire must exceed the level one day prior to the hire	Employer must be approved for Job Training Partnership Program	Total employment must increase; must be in high-unemployment county	Student eligiblity is certified by secondary schools
PTE Allocation Rules		No		Yes	Yes
Carry Forward	Indefinite	No	3 Years	3 Years	3 Years
Refund-able	No	Yes	No	No	No
Transfer-able	No	No	Yes	No	No
Recapture	Yes	No	No	No	No
Sunset		6/30/2009	6/30/2006 (Reinstated in 2007)	No	No
Anti-Double Dip	Partial	No	Partial	No	No
Overall Cap	No	No	No	No	No
Review Required	Yes	No	Yes	Yes	Yes

Investment Incentives										
Type of Credit	Investment Credit	Affordable Housing	Cultural Property	Facility Rehabilitation	Electronic ID Card Reader	Solar Energy Systems	Sustainable Buildings	Angel Investment	Advanced Energy	Alternative Energy Products
Statute	7-9A	7-9I	7-2-18.2; 7-2A-8.6	7-2-18.4; 7-2A-15	7-2-18.8; 7-2A-18	7-2-18.14	Laws 2007, Ch. 204	Laws 2007, Ch. 172	Laws 2007, Ch. 204	Laws 2007, Ch. 204
Taxes Applied Against	CRS (State GRT)	All CRS except local GRT options & GGRT; PIT; CIT	PIT/CIT	PIT; CIT	PIT; CIT	PIT	PIT; CIT	PIT	CRS	CRS (State GRT)
Credit rate	5% of equipment incorporated in a manufacturing operation	50% of property contributions	50% of cost of preserving cultural property up to $25,000	50% of cost of rehabilitating business property up to $50,000	$300 per location at which equipment is used	30% of cost of solar system purchase and installation less federal credit allowed	Variable amount per square foot depending on energy efficiency rating	25% of investment up to $100,000 per taxpayer	6% of costs of qualified facilities	5% of manufacturing equipment
Eligibility	One added employee for every $500,000 of equipment up to $30,000,000 or per $1 million of equipment over $30,000,000	Contribution of land, buildings, cash or services for project approved by MFA	Owner of cultrual property	Business property must be located in an Enterprise Zone and must have been vacant for 24 months	Owner of equipment for reading ID's	Not allowed for pool heating or for commercial systems	Building must be certified by EMNRD	Eligibility must be certified by Economic Development Department	Taxpayer must be certified by the Environment Department	One added employee for every $500,000 of equipment up to $30,000,000 or per $1 million of equipment over $30,000,000
PTE Allocation Rules	No	No	Yes	Yes	Yes	No	Yes	Yes	No	No
Carry Forward	Yes	5 Years	4 Years	4 Years	No	10 Years	7 years	3 Years	5 Years	5 Years
Refund-able	No<2>	No	No	No	No	No	No	No	No	No
Transfer-able	No	Yes	No	No	No	No	Yes	No	No	No
Recapture	No	No	No	No	No	No	No	No	Partial	Yes
Sunset	<3>	No	No	No	No	31-Dec-15	31-Dec-03	31-Dec-11	31-Dec-15	No
Anti-Double Dip	No	Partial	No	Partial	No	No	Partial	No	Yes	No
Overall Cap	No	$3.7 million (annual)	No	No	No	$5 Million (annual)	$10 million (annual)	$750,000 (annual)	$60 million (cumulative)	No
Review Required	Yes	No	No	No	No	No	No	EDD	NMED	No

Incentives for Expenditures, Revenues, etc.							
Type of Credit	Laboratory Partnership with Small Business	Small Business R&D Holiday	Land Conservation	Renewable Energy Production	Film Production	Biodiesel Fuel Production	Biodiesel Facility
Statute	7-9E	7-9H	7-2-18.10; 7-2A 8.9	Laws 2007; 7-2A 19	7-2F	Laws 2007, Ch. 204	Laws 2007, Ch. 204
Taxes Applied Against	GRT (state portion)	CRS	PIT; CIT	PIT; CIT	PIT; CIT	PIT; CIT	GRT & Comp.
Credit rate	100% of assistance to small businesses up to per lbusiness limits and a total limit of $2.4 million per taxpayer	100% of GRT & Comp. Tax liability	50% of the value of land donated up to $100,000	Variable amount per kilowatt of renewable electrcity generated	25% of expenditures on film production	Decreasing amount per gallon of biodiesel fuel blended	30% of costs up to $50,000
Eligibility		Less than 25 employees/$5 million of revenue; 20% of expenditures on research	Donations must be made to N.M., or to a 501(c)(3)	Ownership of electricity generating facility using renewable resources		Must be taxable gallons under the Special Fuels Tax	Certification by EMNRD required
PTE Allocation Rules	No	No	No	No	No	Yes	No
Carry Forward	No	No	20 Years	5 Years	No	5 Years	4 Years
Refund-able	No	No	No	Partial	Yes	No	No
Transfer-able	No	No	No	Yes	No	No	No
Recapture	No	No	No	No	No	No	Yes
Sunset	No	6/30/2009	No	31-Dec-17	No	31-Dec-12	No
Anti-Double Dip	No	Partial	No	Partial	No	Yes	No
Overall Cap	$4.8 million (annual)	No	No	$25 million (annual)	No	No	$1 million (annual)
Review Required	No	No	No	No	No	No	No

Appendix B: Utilization of Incentive Tax Credits that Do Not Apply to Manufacturers

The following table shows the amount of incentive tax credits generally may not be claimed for manufacturing companies that were claimed for fiscal years 2002 through 2007 (except for corporate incentive tax credits, which are only available through 2006).

Type of Credit	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Business Tax Credits claimed against Corporate Income Tax						
Film Tax Credit	$ 806,948	$1,219,508	$3,405	$2,072,633	$10,742,480	$17,578,139
Cultural Property Tax Credit	$ -	$ -	$ -	$ -	$ 1,970	NA
Advanced Energy Tax Credit	$ -	$ -	$ -	$ -	$ -	NA
Card Reader Tax Credit	$ -	$ -	$ -	$ -	$ -	NA
Renewable Energy Tax Credit	$ -	$ -	$ -	$ -	$ 8,250,294	NA
Job Mentorship Tax Credit	$ -	$ -	$ -	$ -	$ -	NA
Land Conservation Tax Credit	$ -	$ -	$ -	$ -	$ -	NA
Affordable Housing Tax Credit	$ -	$ -	$ -	$ -	$ -	NA
R & D Tax Credit	$ -	$ -	$ -	$ -	$ -	NA
Subtotal, CIT Credits	**$ 806,948**	**$ 1,219,508**	**$ 3,405**	**$ 2,072,633**	**$ 18,994,744**	**$ 17,578,139**
Business Tax Credits claimed against Personal Income Tax						
Cultural Property Preservation	$ 233,256	$ 330,134	$ 196,665	$ 205,293	$ 258,448	$ 173,819
Business Facility Rehabilitation	$ -	$ 4,860	$ 12,995	$ -	$ -	$ -
Electronic ID Card Reader	$ 2,118	$ 900	$ 900	$ -	$ 369	$ 300
Film Production Credits		$ 3,315	$ 10,165	$ 23,813	$ 65,779	$ 72,315
Land Conservation Tax Credit			$ 375,042	$ 250,308	$ 606,160	$ 114,381
Affordable Housing Tax Credit					$ 26,782	$ 48,703
Subtotal, PIT Credits	**$ 235,374**	**$ 339,209**	**$ 595,767**	**$ 479,414**	**$ 957,538**	**$ 409,518**
Business Tax Credits claimed against Combined Reporting System						
Laboratory Partnership with Small Business Tax Credit	$ 1,756,241	$ 764,585	$1,897,764	$ 1,467,779	$ 1,454,338	$ 1,694,415
Hospital Gross Receipts Tax Credit	NA	NA	NA	NA	NA	NA
Double Local Option Penalty Credit	NA	NA	NA	NA	NA	NA
Unpaid Doctor Service GR Credit	NA	NA	NA	NA	NA	NA
R&D Small Business Tax Credit	NA	NA	NA	NA	*	$ 303,129
Affordable Housing and Resale Tax Credits	NA	NA	NA	$ 28	$ 380	NA
Capital Equipment Tax Credit	$ -	$ -	$ 17,384	$ 322,774	NA	NA
Subtotal, CRS Credits	**$ 1,756,241**	**$ 764,585**	**$1,915,148**	**$ 1,790,581**	**$ 1,454,718**	**$ 1,997,544**
Total, All Credits	**$ 2,798,563**	**$ 2,323,302**	**$2,514,320**	**$ 4,342,627**	**$ 21,407,000**	**$ 19,985,200**